

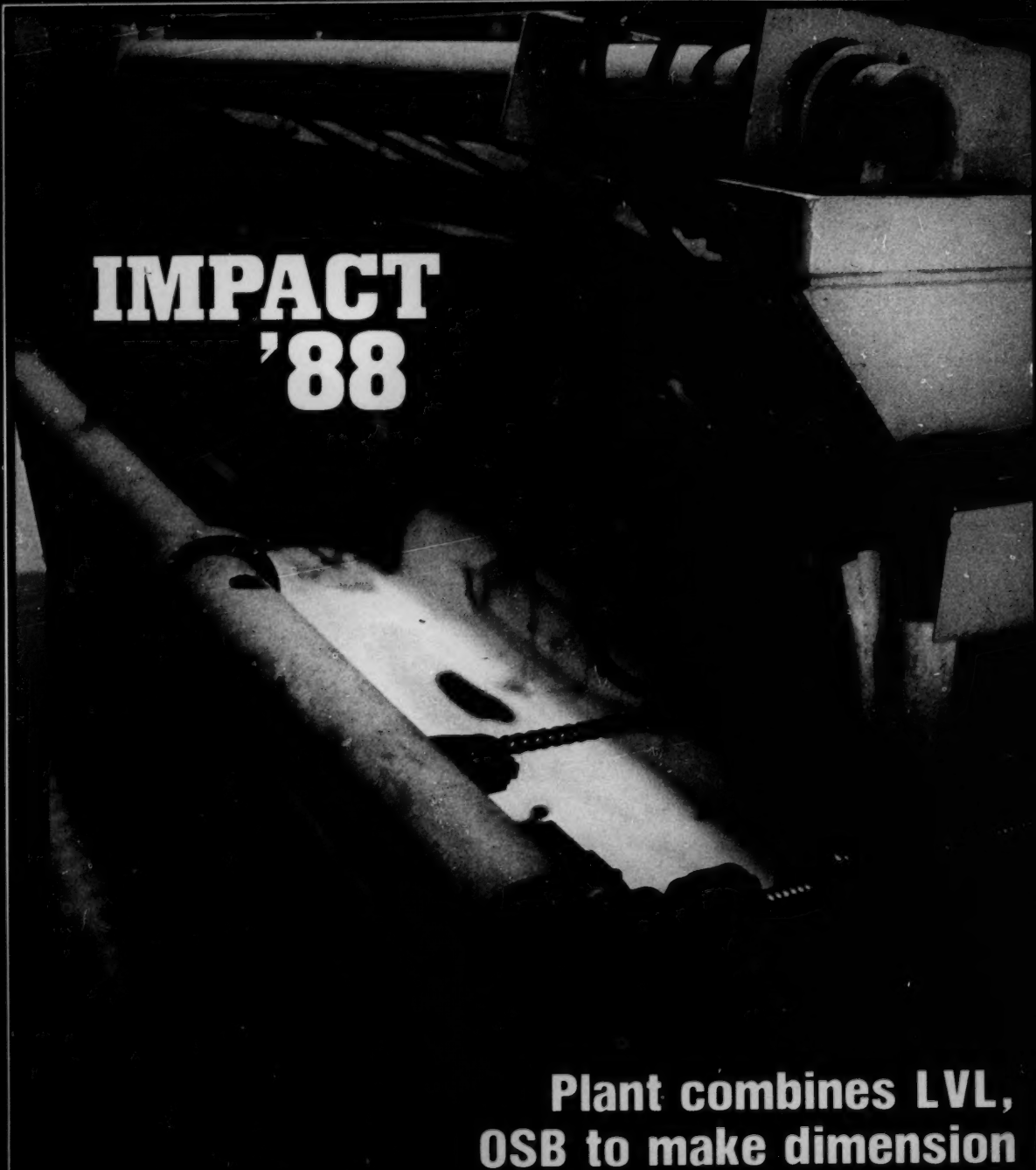
JANUARY 1988

FOREST

C3975-1

LOGGING/PULPWOOD/FORESTRY/LUMBER/PANELS

INDUSTRIES



**IMPACT
'88**

0800091758
08
006
SERVICE INC/STATIS REF IN
CONGRESSIONAL INFORMATION
4520 EAST-WEST HWY STE 80 3DG
BETHESDA MD 20814

**Plant combines LVL,
OSB to make dimension**

JANUARY

Impact '88

20

Industry leaders predict moderately healthy year

We polled industry leaders to see what they forecast for the year ahead. Most are optimistic, say demand for machinery and products will stay strong

27

Canadian producers braced for rough ride ahead

The export tax on softwood lumber entering the U.S. has not yet had much effect on Canadian producers. But it will have a major impact in '88 as consumption falls

30

Tax issues will dominate legislative agenda in '88

Seasoned Washington observer Luke Popovich offers an overview of what to expect in 1988. Watch for more taxes, labor legislation, environmental activity

Mills

12

Plant combines LVL, OSB to make dimension

Manufacturing process converts three-quarters of each tree into composite lumber product. Marketing program focuses on uniformity, working stresses, long lengths

Woods

32

Product review compares truck, equipment tires

Loggers, haulers face many choices when it comes to tire selection. Tire types offered this market are described; tables compare specs in two categories



Cover story, page 12

Departments

9

For the Record

36

Making Equipment Pay

39

Equipment

43

Industry News

44

Supplier News

46

Newsmakers

47

Meetings

The export tax on softwood lumber entering the U.S. has not yet had much effect on Canadian producers. But it will have a major impact in '88 as consumption falls

Canadian producers braced for rough ride ahead

Vancouver, British Columbia

THE YEAR 1987 can best be characterized as the year that Canadian sawmillers expended almost as much energy fighting with provincial, federal and U.S. governments as they expended in producing lumber.

The eventful year was highlighted by the imposition of a 15% export tax on Canadian softwood lumber entering into the U.S., in lieu of a threatened 15% countervailing duty.

Since the imposition of the export tax on Jan. 6, 1987, Canadian producers have been coping with the hastily initiated agreement which has caused serious inequities. Compounding this development, sawmilling companies in B.C. and Quebec have seen radical changes to their stumpage system and major cost increases for the raw materials.

These changes to the basic economics of producing lumber for the U.S. market—Canada's largest—have raised the question of just how well Canadian companies will fare in the long term.

Overall, Canadian lumber companies were not significantly affected in 1987 by the export tax, due to relatively high 1987 U.S. housing starts, record Canadian housing starts, and high overall U.S. lumber consumption.

Strong domestic North American lumber markets were outpaced by export markets. Canadian shippers exported record volumes in 1987. As a result, prices remained stable for the first nine months of 1986, and profits reached record levels for many companies.

Although 1987 amply demonstrated the export tax does not have a major effect during periods of strong demand, the effect during periods of poor consumption has not yet been tested.

This article, which has been condensed from the report *Canada's Forest Industries: Markets 1988-92*, written by Widman Management Ltd., a Vancouver-based forest products marketing and consulting company, outlines high-

By Bob Westergaard

lights of 1987 and provides an analysis of the key events that will affect the industry in the next few years.

As a background to this analysis, it is worthwhile to look at 1987 lumber production by province, along with an analysis of where this lumber was marketed.

As Table 1 indicates, an estimated 25.6 billion bd ft of lumber was produced in Canada, a record year. Particularly large gains on the B.C. coast were due to strong offshore markets, while an estimated 1.7 billion bd ft increase in the B.C. interior has largely been due to favorable price levels, incremental mill expansions and the lack of labor disruptions in 1987.

An additional 200 million bd ft was produced over 1986 levels in Alberta, Saskatchewan and Manitoba, while marginal gains were made in Quebec and in the eastern Maritime provinces.

The only region to post a drop in production from 1986 levels is Ontario, where producers have felt increased

competitive pressures primarily from eastern Canada and U.S. mills.

An analysis of where this lumber was marketed indicates why these production levels were achieved. As Table 2 indicates, an estimated 2.7 billion bd ft more lumber was produced in 1987 than in 1986; however, shipments to the U.S. actually dropped slightly during the year. The difference was made up by an almost 50% increase in offshore exports and strong Canadian consumption.

Although there are no definitive figures on overall Canadian consumption published by Statistics Canada, Canadian consumption figures are calculated by adding Canadian production and Canadian imports and subtracting exports to the U.S. and offshore markets. For the purposes of this analysis, the effect of inventories is ignored.

Since 1980, the Canadian lumber industry has consistently exported 2.4 to 2.5 billion bd ft/year. Although 1986 was a strong year for exports, a 4½-month strike in B.C.—which typically accounts for 85 to 95% of the country's non-U.S. exports—forced offshore ship-

TABLE 1—Canadian softwood lumber production by region (millions of bd ft)

Year	B.C. coast	B.C. interior	B.C. total	ASM ¹	Ont.	Que.	East ²	Sub-total	Total Canada
1980	4,252	7,726	11,978	994	1,639	3,120	723	6,476	18,454
1981	3,458	6,965	10,423	1,084	1,575	2,979	575	6,213	16,636
1982	3,002	6,943	9,945	1,033	1,637	2,762	455	5,867	15,832
1983	4,139	8,903	13,042	1,153	1,673	3,534	590	6,950	19,992
1984	3,903	9,174	13,077	1,456	1,841	3,553	661	7,511	20,588
1985	3,996	10,007	14,002	1,471	2,014	4,039	820	8,343	22,345
1986	3,753	9,582	13,335	1,591	2,195	4,916	913	9,617	22,952
1987 ³	4,679	11,284	15,963	1,750	2,000	5,016	922	9,668	25,651

¹ ASM is Alberta, Saskatchewan and Manitoba. ² East is New Brunswick, Nova Scotia, Newfoundland and P.E.I. ³ Estimate.
SOURCE: Statistics Canada/COFI.

ments down to 2.06 billion bd ft.

However, in 1987 offshore exports were up an estimated 50+% from the previous year's figure, with particularly large increases recorded in the major markets of United Kingdom and Japan. The Middle East and North African markets have accounted for approximately 300 million bd ft since 1980, but have fallen off sharply in 1985 and 1986. In 1987 these markets began to rebound and posted a 56% increase over the previous year. In addition, the European market was particularly strong.

Thus, while Canadian shipments to the U.S. dropped slightly after the introduction of the export tax, this decrease was not necessarily due to the export tax. Rather, a diversion of production to the strong Canadian domestic market and a high demand for export markets were the causes of this decline.

The export tax did have some effect in 1987, with marginal capacity coming off the market in Ontario, and a resultant serious financial burden on eastern Canadian reload centers and the western Canadian remanufacturing indus-

that they do not receive a benefit from low stumpage or do not receive subsidies through federal or provincial government programs in excess of .5% of their operating income, only 20 companies were granted exemptions. The federal government was ineffective in notifying industry of the application deadline; many manufacturers learned about the availability of exemptions only after the agreement was announced.

Another major difficulty for remanufacturers is caused by "Appendix B" of the Canadian/U.S. softwood lumber agreement. This appendix, which contains a list of remanufactured products that are taxed based upon their raw material price, does not include all products remanufactured in Canada.

Thus, if a company purchases cedar blanks and remanufactures them into bevel siding (which is included in Appendix B), the company would pay a 15% export tax based on the raw material price as purchased from a primary producer. However, in the case of products which are not on the Appendix B list—such as SPF remanufactured

Princeton Lumber Wholesalers has become the "exporter of record" on the customs documents and is subject to the 15% export tax, even though it handles exempted lumber.

As Princeton could not charge supplying mills for the 15% export tax, its only alternative was to lay off employees in its Canadian yards and ship the lumber directly from the mills to the U.S. yards where it was unloaded by American workers and trucked by U.S. firms.

The export tax also has had a substantial impact on other groups it was designed not to hit, such as the U.S. cedar fencing manufacturers. Many U.S. fencing manufacturers had originally aligned themselves with the Coalition for Fair Lumber Imports in 1982, but did not join in the lumber lobby when it filed its complaint in May 1986.

Because of this, negotiations between the U.S. and Canada did not include fencing, and fencing materials still enter into the U.S. on a tax-free basis. However, rough unprocessed cedar, which forms the major raw material base for many Pacific Northwest fencing manufacturers, still enters the U.S. with a 15% tax. This has created a situation whereby Canadian fencing manufacturers can sell their products in the U.S. without a handicap of a tax, while U.S. fencing manufacturers must absorb a 15% export tax on their raw material.

**TABLE 2—Consumption of Canadian lumber, 1987-88
(millions bd ft)**

	1986		1987*	
Production	22,952		25,651	
Consumption:				
Canada		7,138		8,882
U.S.		14,115		14,111
Offshore		2,059		3,109
Canadian imports	360		451	
Total production plus imports	23,312		26,102	
Total consumption		23,312		26,102
Net	0		0	

* Estimate.

tries. The hardship was not caused so much by the export tax itself, but rather it was due to the lack of consultation between government and industry.

This resulted in a situation whereby 20 companies in Canada were granted exemptions from the export tax on the basis that they utilize timber from private lands or purchase their raw material on the open market, and therefore do not benefit from "low stumpage rates."

Thus, two similar plants operating side-by-side could be competing inequitably because one plant may have an exemption whereas the other does not.

Although over 50 companies were certified by the Canadian government

products or pallets—companies must pay a 15% export tax based upon the end selling price of their product.

Appendix B limitations have been responsible for large-scale layoffs at many manufacturing plants and have caused considerable financial hardship for many other companies.

Another group that has been badly hurt has been Canadian wholesalers and reload operations that handle stock from companies such as Fraser and Irving—who have been granted exemptions from the export tax.

One example is Princeton Lumber Wholesalers, a Paris, Ont., company. With the imposition of the export tax,

Stumpage levels add to impact

One key aspect of the U.S./Canadian softwood trade agreement is the provision for the provinces to increase stumpage rates as a replacement measure for the export tax.

Both Quebec and B.C. have increased their stumpage levels and, at the time of this article preparation, have entered into discussion with U.S. government over elimination of the export tax. In addition, the Maritime lumber producers are "within close reach" of eliminating the export tax for this group, reports the Maritime Lumber Bureau.

However, the governments of Ontario, Prairie provinces and Alberta have not made efforts to increase their stumpage and currently plan to continue with the existing export tax agreement. If the B.C., Quebec and Maritime governments are successful in eliminating the tax, an administrative nightmare may well emerge, particularly for Maritime and B.C. lumber moved through eastern Canadian reloads.

For the most part, the major changes in the B.C. stumpage system have not been well received by industry. According to B.C. Ministry of Forests data,

stumpage levels before the major increase have averaged 6.2% of annual sales of C\$9.36 billion, which has raised C\$580 million in direct stumpage revenue for the province. According to Forest Minister Dave Parker, the new measures will increase the stumpage levels to 7.3% of the companies' sales values and produce an estimated C\$680 million in revenue—C\$574 of which will be raised directly from stumpage.

In addition to the major stumpage increases which were introduced on Oct. 1, 1987, Section 88 of the B.C. Forest Act has been completely eliminated. This section allowed companies to apply for stumpage credits for road building and silviculture on public land. Thus, the industry is faced not only with a major increase in stumpage charges, but is now completely financially responsible for the development of all roads and silviculture costs on public lands.

According to the Ministry of Forests, average stumpage will rise from C\$4.41/m³ to C\$10.59/m³ on the coast and from C\$1.31/m³ to C\$8.59/m³ in the interior. However, these increases have not been implemented evenly among companies. The new comparative value system penalizes mills that are very close to their timber, and those that are harvesting higher quality stands. In some cases, producers found themselves facing a stumpage bill as much as 800% greater than under the previous system.

Industry reaction to the new stumpage system was immediate, and many companies, most notably Westar Timber, operating in northwestern B.C., immediately closed their logging operations. Although Westar has since restarted its harvesting, many other companies in the interior have subsequently closed their logging operations in protest of the stumpage cost.

The major increases in stumpage have been further aggravated by the fact that companies are, at the time of this writing, still paying the export tax in addition to their higher stumpage charges. Although a rebate system has been put into place which would allow companies to regain their export tax credits, the lengthy time period in obtaining rebates is causing serious cash flow problems, particularly for medium and smaller companies.

Like previous export tax legislation, this rebate system has victimized the remanufacturing industry, as only primary producers are entitled to receive the rebate. In the case of a Canadian primary producer selling to a remanufacturer—who may ship a portion of its

Although 1987 proved the export tax does not have a major effect during periods of strong demand, its effect during periods of poor consumption has not yet been tested

product into the U.S.—a credit system between the remanufacturing industries and primary producers has been arranged. The remanufacturers must then seek export tax credits from the primary suppliers, and when they export their production to the U.S., they pay the export tax on their value-added price. Following this, they are then able to sell the tax credits back to their primary suppliers.

As an example, if a remanufacturer purchases lumber at a \$200 U.S. price plus 15% tax, he receives a tax credit of \$30 and, after selling his remanufactured product, he then requests from the mill his \$30 credit for cash.

However, many primary producers do not exchange the full value of the tax credits because of the difficulties they have in getting their own rebates from the government. Remanufacturers have been caught in the bind between primary producers and the government.

Outlook for 1988

As mentioned earlier, the export tax on softwood lumber entering into the U.S. has not had a major effect on Canadian lumber producers. However, in 1988 it should begin to have a major impact as consumption declines.

In 1988, we foresee a significant drop in housing starts in both Canada and the U.S. We expect housing starts in the U.S. to fall from an estimated 1987 level of 1.63 million to 1.45 million in 1988, whereas Canadian starts should drop from 204,000 to 180,000 in 1988.

Helping to offset these declines should be continued growth and an increase in export markets. However, strong exports alone will not save Canada's lumber industry. Based upon 1987 annualized figures, Canada exported 3.1 billion bd ft offshore, or 12.1% of its annual production of 25.6 billion bd ft. By contrast, the U.S. accounted for 14.1 billion bd ft, or 4.5 times the volume moved into offshore markets.

Provinces' forecasts vary

With a drop in U.S. consumption and the new higher cost structures of the B.C. and Quebec lumber industries, we believe many producers will be facing production curtailments in 1988.

Within B.C., coastal producers should do relatively well, as they are largely dependent upon overseas markets. However, with the dramatic interior stumpage increases, these mills are no longer low-cost producers; this, combined with their distance to key U.S. markets, will have an impact in 1988.

In Alberta, the 15% export tax will continue. However, these producers have not been hit by the severe increases in stumpage. Because of low delivered raw material cost, manufacturers will enjoy a minimum of a C\$20/thousand bd ft price advantage over B.C. producers in Canadian markets. Because of favorable transportation rates into U.S. markets, they should enjoy high operating rates and reasonable profits.

The Ontario lumber industry has begun to feel new competition from U.S. southern yellow pine producers, as well as from mills in the eastern Washington/Idaho/Montana area. This, combined with an anticipated drop in Canadian housing starts, may force Ontario production levels down from '87 levels.

As for Quebec stumpage, the outcome of negotiations with the U.S. is not yet clear; however, it is believed that the Quebec government is not pressing for total elimination of the export tax, but rather an export tax reduction in favor of minor stumpage increases. Because manufacturers have in the past two years changed largely from a random-length dimension production to a production base of studs, the predicted decline in U.S. demand may force stud prices down. However, Quebec's pulp and paper industry, with its demand for wood chips, has helped offset the lack of profitability in its major product line.

In the Maritimes, producers may soon enjoy the benefit of receiving export tax exemptions, according to the Maritime Lumber Bureau. Of the 21 producers in this association's membership, five companies received exclusions before the tax was imposed and the other 16 companies were able to market production in local markets and in the healthy Toronto and Montreal markets.

If the export tax for the Maritime mills is eliminated, producing companies should fare well in 1988. ■

THE AUTHOR is a consultant with Widman Management Ltd., a Vancouver, B.C.-based consulting firm.

FOREST INDUSTRIES

Combining The Timberman
and The Lumberman

PUBLISHERS / SALES HEADQUARTERS
SAN FRANCISCO, CALIFORNIA 94105
500 Howard St., (415) 397-1881
Telex: 278273 Cable: Mfrsrepub
Leigh M. Freeman, Publishing Director
Leonard E. Hess, Group Publisher
Wini D. Rague, Director of Circulation
Andrew A. Mikus, Director of Production
Kim L. Prochauer, Ad Production Coordinator

REGIONAL SALES OFFICES

SAN FRANCISCO, CALIFORNIA 94105
500 Howard St.
(415) 397-1881
Telex: 278273 Fax: 415-543-0258
William Little, Western Sales Manager
Jan Curcio, Sales Assistant

CHICAGO, ILLINOIS 60601
36 E. Wacker Dr., (312) 372-8238
Bernice Bethel, Sales Assistant

ATLANTA, GEORGIA 30338
2700 Cumberland Parkway, N.W. Suite 530
(404) 432-3198
Jay E. Schloesser, Southern Sales Manager
Mary Anne Thompson, Sales Assistant

LONDON, ENGLAND
Landsdowne Media Services Ltd.
Landsdowne House, 12 Church St.
Rickmansworth, Hertfordshire, UK WD3 1BS
Telephone: 0823-777711
Telex: 28754 LMS LTD G
Fax: 44-9-23721103
David M. Landsdowne
Christine Burrows, Sales Assistant

B-1100 BRUSSELS, BELGIUM
BWB Media Services
198 Avenue Winston Churchill, Suite 4
Telephone: 347-31-35
Telex: 62546 BWB B Fax: 32-2-3473208
Brien W. Dusey

B-1000 BRUSSELS, BELGIUM
Baudry-Bollesau Associates
Rue J. Lebeau, 27
Telephone: 513-06-47 513-17-32
Telex: 62775 BBA Fax: 32-2-5141738
Baudry C. Bollesau

D-4830 BOCHUM 6, FED. REP. GERMANY
Postfach 606 264
Telephone: 2327-88908 Telex: 620488 EDM
Ernst Dieter Hartmann

TOKYO, JAPAN
Orient Echo Inc.
1101 Grand Maison Shimomiyabi-cho 8
Shinjuku-ku, Tokyo 162, Japan
Telephone: (03) 235-5901 Telex: J33378
Masahiko Yoshikawa

ADVERTISING: Complete offset negatives and inserts should be sent to FOREST INDUSTRIES, c/o American Press Div., Combined Communications Services Inc., 5601 Paris Rd., Columbia, Mo. 65202. Copy and art for publication-set ads, all insertion orders and special instructions should be sent to the publishing office: 500 Howard Street, San Francisco, Calif. 94105.



***COPYRIGHT 1988 by Miller Freeman Publications Inc.** All rights reserved. Contents may not be reproduced without permission. Forest Industries, The Timberman, The Lumberman, National Timber Industry, Western Timber Industry and Industrial Wood Energy are trademarks of Miller Freeman Publications Inc.



Chairman of the Board: Lord David R. Stevens
President: Marshall W. Freeman; **Vice Presidents:** Charles C. Asaka, Leigh M. Freeman, Leonard E. Hess, Barbara M. Henson, Thomas L. Kemp, and Wini D. Rague; **Corporate Financial Manager:** Charles H. Banc; **Secretary/Treasurer:** Miller Freeman; **Assistant Treasurer:** Douglas A. Turner.

ADVERTISING INDEX

To obtain more information on advertised products in this issue, circle the corresponding number on the Reader Service Card facing page 40 in this issue.

	Page No.	Reader Service No.
Bonney, Turner & Harris Inc.....	48	
Browning Manufacturing	Cov3.....	211
CAE Machinery Ltd.....	W2.....	213
Case/JI Case.....	6-7.....	203
Corley Manufacturing	45.....	210
Davis Forestry International	48	
Deere & Co.....	Cov4.....	212
Directory of the Forest Products Industry	8, 26...204, 208	
The Douglas Reiter Co.....	47, 48.....	221
Dow Chemical U.S.A.....	E/S2-3.....	215
Dubal, Beck, Harris & Associates.....	48	
Durand-Raute.....	2-3.....	202
Forest Industries Clinic & Machinery Show.....	18-19.....	207
Forest Industries North American Factbook.....	16.....	217
Forest Products Engineering	48	
Goring Kerr, Inc.....	11.....	205
Henderson Industrial Equipment.....	46.....	220
R.J. Hill Engineering	48	
International Trade Consultants	48	
Irvington-Moore	E/S1.....	214
KH ₂ A Engineering Inc.	48	
Mater Engineering	48	
McDonough Manufacturing	10.....	200
Mid-South Engineering	48	
Motorola.....	17.....	206
Oregon Logging Conference	W1.....	223
Pacific/Hoe Saw & Knife Co.	1, 46...222, 219	
Parker Hannifin Corp.....	Cov2.....	201
Pease & Beadling Engineers	48	
Search North America	48	
Supatimber, A Division of Rentokil	43.....	209
Veneer Opportunities.....	39.....	218
Webco Corporation	47.....	216

The index on this page is provided as a service to readers. The publisher does not assume any liability for errors or omissions.